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Bullish Spreads
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- Introduction to Spreads
- Bullish Spreads
 - Very Bullish
 - Neutral to Bullish
 - Bullish Diagonal Spread
- Summary
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What is an Option Spread Trade?

- A combination of positions in options that share an underlying market
- Options combined with the underlying security may also be considered spread trades
- The range of possibilities is endless

What is an Option Spread Trade?

Can be as basic as a Covered Call

Long VRM @ 53.50

Short 1 VRM Apr 55 Call @ 2.00

What is an Option Spread Trade?

May be more complex like a Broken Wing Butterfly

Long 1 ZOE 45 Call @ 6.60

Short 2 ZOE 50 Calls @ 3.70 ea.

Long 1 ZOE 60 Call @ 0.85

Bull Spread –

- Combination of two option contracts
- One is purchased and the other is sold
- Both are the same type (call or put)
- Both have the same underlying market or stock
- Both have same expiration
- The difference is in the strikes

Bull Spreads – VRM @ 47.50

Long 1 VRM Jun 45 Call @ 4.80

Short 1 VRM Jun 50 Call @ 2.45

Net Cost = 2.35

Long 1 VRM Jun 45 Put @ 2.20

Short 1 VRM Jun 50 Put @ 4.85

Net Income = 2.65

Trade –

- ZOE is trading at 32.50
- We believe that ZOE will trade to 40.00 in the next six weeks
- April expiration is in six weeks

Buy 1 ZOE Apr 35 Call @ 1.80

Sell 1 ZOE Apr 40 Call @ 0.65

Net Cost = 1.15

Very Bullish

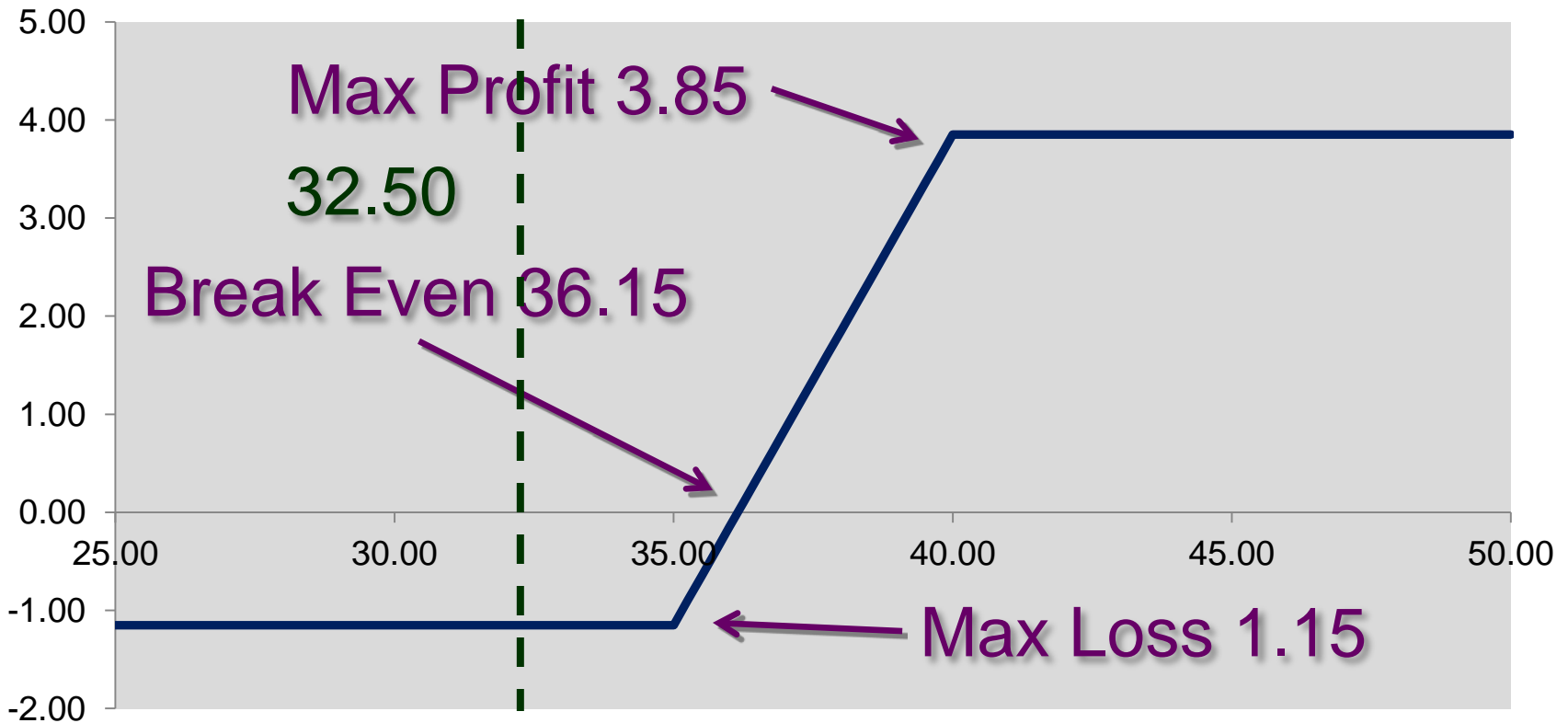
Long 1 ZOE Apr 35 Call @ 1.80

Short 1 ZOE Apr 40 Call @ 0.65

| ZOE at Expiration | Long 1 ZOE Apr 35 Call | Short 1 ZOE Apr 40 Call | Cost | Profit / Loss |
|-------------------|------------------------|-------------------------|--------|---------------|
| 25.00 | 0.00 | 0.00 | (1.15) | (1.15) |
| 30.00 | 0.00 | 0.00 | (1.15) | (1.15) |
| 35.00 | 0.00 | 0.00 | (1.15) | (1.15) |
| 40.00 | 5.00 | 0.00 | (1.15) | 3.85 |
| 45.00 | 10.00 | (5.00) | (1.15) | 3.85 |
| 50.00 | 15.00 | (10.00) | (1.15) | 3.85 |

Very Bullish

Long 1 ZOE Apr 35 Call @ 1.80
Short 1 ZOE Apr 40 Call @ 0.65



Very Bullish

Long 1 ZOE Apr 35 Call @ 1.80

Short 1 ZOE Apr 40 Call @ 0.65

ZOE Below 35.00 at Expiration –
Both options expire

ZOE Between 35.00 and 40.00 –
35 Call In The Money

ZOE Over 40.00 at Expiration –
Both Calls In The Money

Trade –

- ZOE is trading at 32.50
- We believe that ZOE has good support and may trade higher over the next six weeks
- April expiration is in six weeks

Buy 1 ZOE Apr 25 Call @ 7.80

Sell 1 ZOE Apr 30 Call @ 4.00

Net Cost = 3.80

Bullish to Neutral

Long 1 ZOE Apr 25 Call @ 7.80

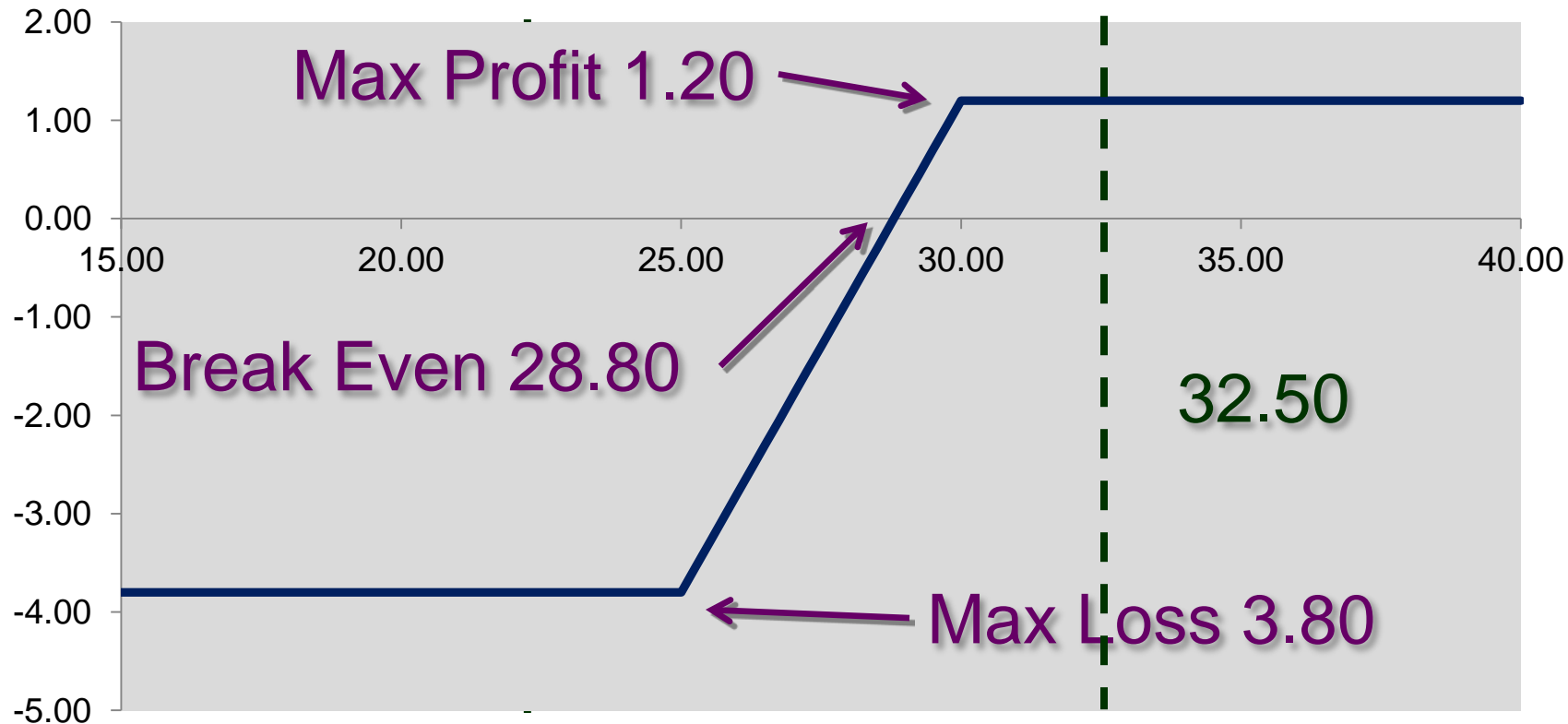
Short 1 ZOE Apr 30 Call @ 4.00

| ZOE at Expiration | Long 1 ZOE Apr 25 Call | Short 1 ZOE Apr 30 Call | Cost | Profit / Loss |
|-------------------|------------------------|-------------------------|--------|---------------|
| 15.00 | 0.00 | 0.00 | (3.80) | (3.80) |
| 20.00 | 0.00 | 0.00 | (3.80) | (3.80) |
| 25.00 | 0.00 | 0.00 | (3.80) | (3.80) |
| 30.00 | 5.00 | 0.00 | (3.80) | 1.20 |
| 35.00 | 10.00 | (5.00) | (3.80) | 1.20 |
| 40.00 | 15.00 | (10.00) | (3.80) | 1.20 |

Bullish to Neutral

Long 1 ZOE Apr 25 Call @ 7.80

Short 1 ZOE Apr 30 Call @ 4.00



Bullish to Neutral

Long 1 ZOE Apr 25 Call @ 7.80

Short 1 ZOE Apr 30 Call @ 4.00

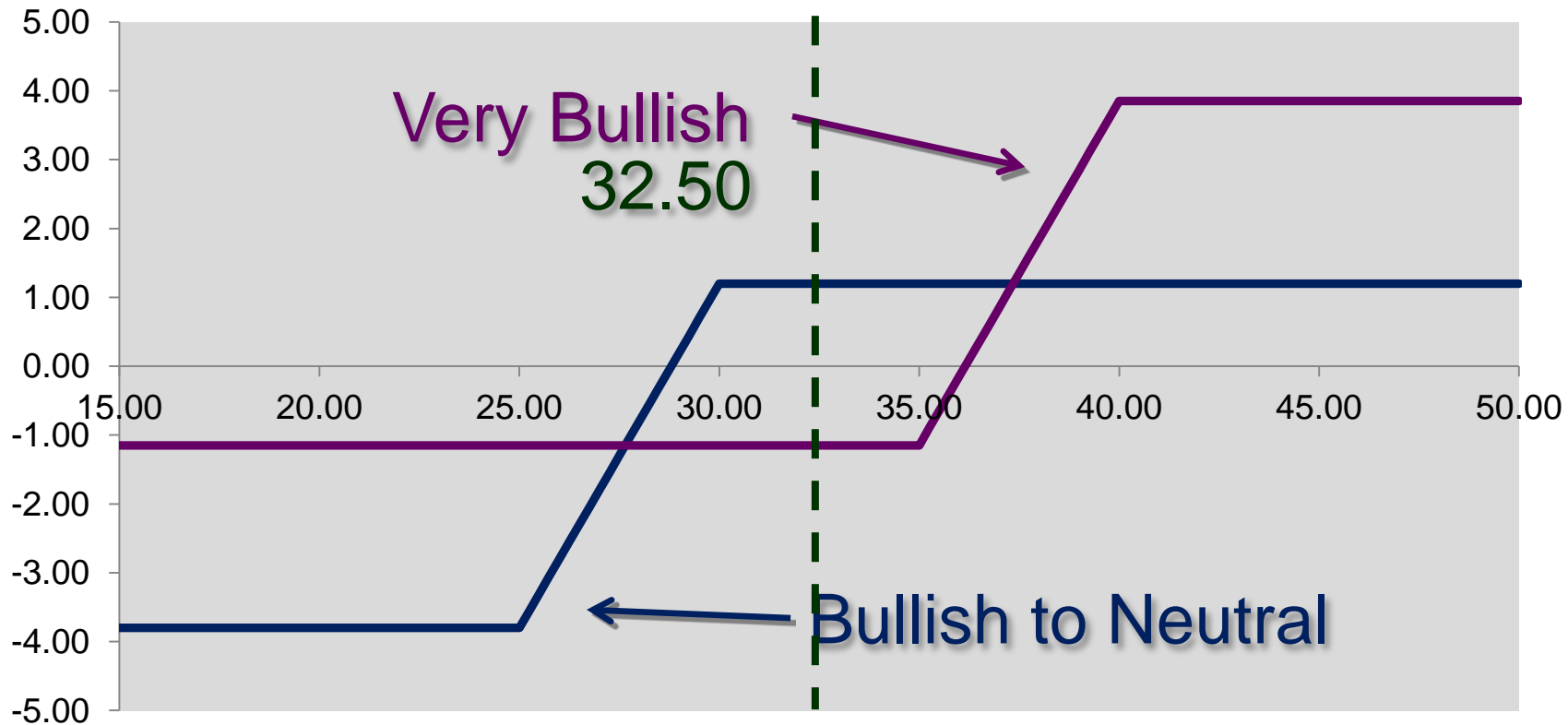
ZOE Below 25.00 at Expiration –
Both options expire

ZOE Between 25.00 and 30.00 –
25 Call In The Money

ZOE Over 30.00 at Expiration –
Both Calls In The Money

Bullish to Neutral

Very Bullish vs. Bullish to Neutral
Comparison –



Very Bullish
32.50

Bullish to Neutral

Diagonal Spread –

- Combination of two option contracts
- One is purchased and the other is sold
- Both are the same type (call or put)
- Both have the same underlying market or stock
- Both have different price
- The difference is in expiration dates

Bullish Diagonal Spread

Diagonal Spread –
VRM @ 43.00

Short 1 VRM Jun 45 Call @ 0.75
Long 1 VRM Aug 40 Call @ 4.25
Net Cost = 3.50

Trade –

- ZOE is trading at 35.00
- We believe that ZOE will trade to 37.50 in the next six weeks
- We also are bullish for the next six months
- April expiration is in six weeks

Sell 1 ZOE Apr 37.50 Call @ 0.60

Buy 1 ZOE Aug 30.00 Call @ 6.10

Net Cost = 5.50

Bullish Diagonal Spread

Short 1 ZOE Apr 37.50 Call @ 0.60

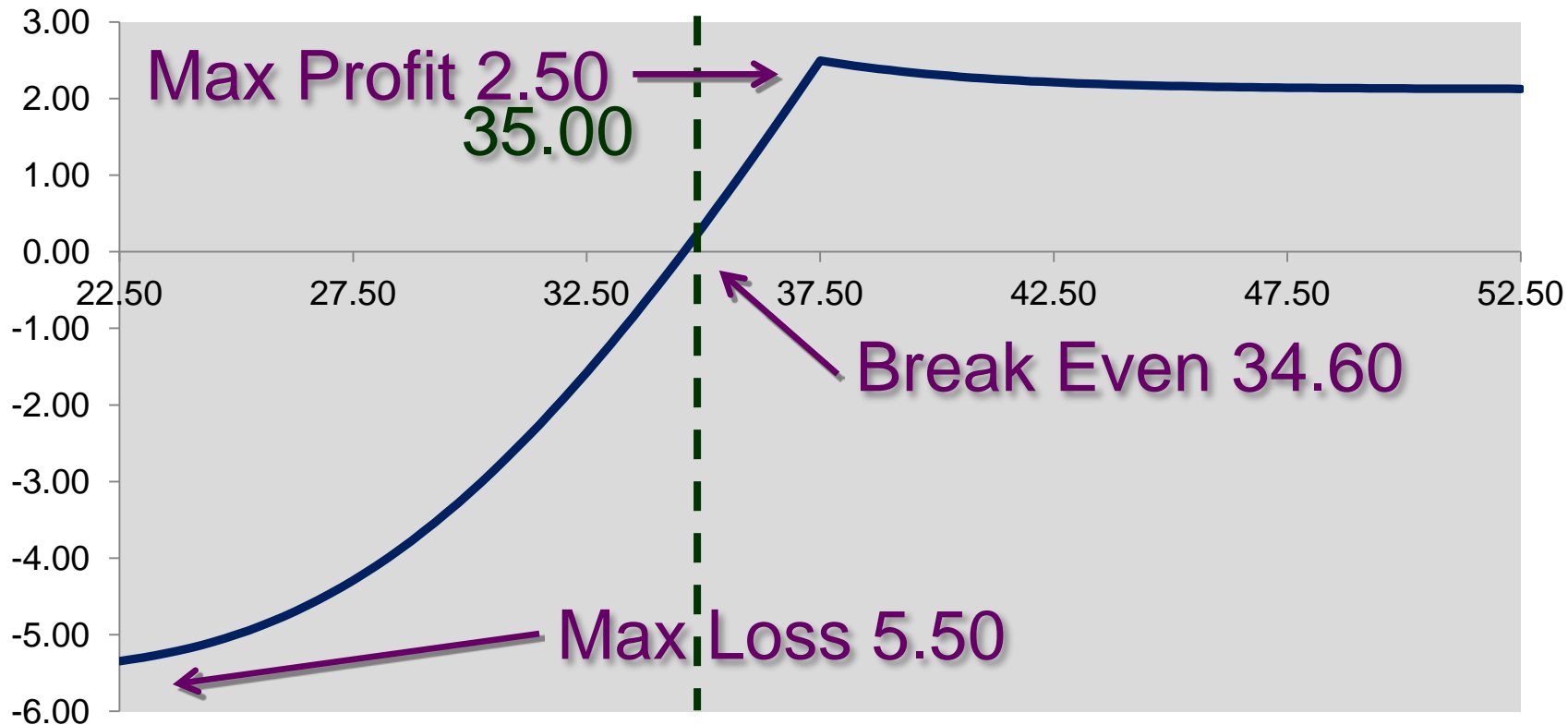
Long 1 ZOE Aug 30.00 Call @ 6.10

| ZOE at April Expiration | Short 1 ZOE Apr 37.50 Call | Long 1 ZOE Aug 30.00 Call | Cost | Profit / Loss |
|-------------------------------|----------------------------------|---------------------------------|--------|---------------|
| 30.00 | 0.00 | 2.35 | (5.50) | (3.15) |
| 32.50 | 0.00 | 3.90 | (5.50) | (1.60) |
| 35.00 | 0.00 | 5.80 | (5.50) | 0.30 |
| 37.50 | 0.00 | 8.00 | (5.50) | 2.50 |
| 40.00 | (2.50) | 10.30 | (5.50) | 2.30 |
| 42.50 | (5.00) | 12.70 | (5.50) | 2.20 |

Bullish Diagonal Spread

Short 1 ZOE Apr 37.50 Call @ 0.60

Long 1 ZOE Aug 30.00 Call @ 6.10



Bullish Diagonal Spread

Short 1 ZOE Apr 37.50 Call @ 0.60

Long 1 ZOE Aug 30.00 Call @ 6.10

ZOE Below 37.50 at April Expiration –

Apr 37.50 Call Expires

Aug 30.00 Call is Open

ZOE Over 37.50 near April Expiration –

Apr 37.50 Call In The Money

Aug 30.00 Call is Open

A decision needs to be made on the Aug Call

Trading Choices –

Sell ZOE Aug 30 Call

Hold ZOE Aug 30 Call

Sell Another Closer Dated ZOE Call

Bullish Diagonal Spread

At April Expiration –

- ZOE is trading at 35.00
- Long 1 ZOE Aug 30.00 Call @ 5.80
- We believe that ZOE may trade to 37.50 in the next four weeks
- May expiration is in four weeks

Sell 1 ZOE May 37.50 Call @ 0.40

Net Running Cost = 5.10

Bullish Diagonal Spread

Short 1 ZOE May 37.50 Call @ 0.40

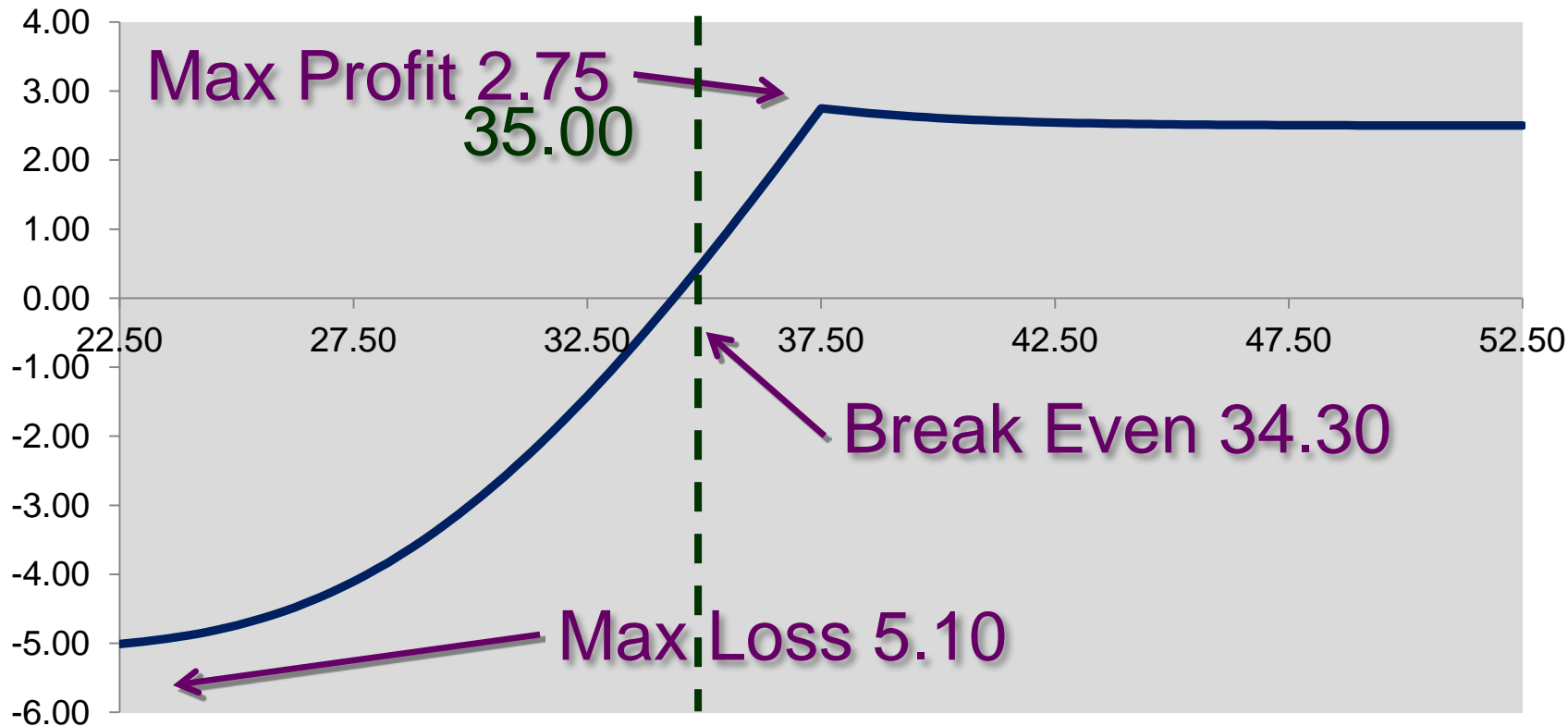
Long 1 ZOE Aug 30.00 Call @ 6.10*

| ZOE at May Expiration | Short 1 ZOE May 37.50 Call | Long 1 ZOE Aug 30.00 Call | Cost | Profit / Loss |
|-----------------------------|----------------------------------|---------------------------------|--------|---------------|
| 30.00 | 0.00 | 2.10 | (5.10) | (3.00) |
| 32.50 | 0.00 | 3.70 | (5.10) | (1.40) |
| 35.00 | 0.00 | 5.65 | (5.10) | 0.55 |
| 37.50 | 0.00 | 7.85 | (5.10) | 2.75 |
| 40.00 | (2.50) | 10.20 | (5.10) | 2.60 |
| 42.50 | (5.00) | 12.65 | (5.10) | 2.55 |

Bullish Diagonal Spread

Short 1 ZOE May 37.50 Call @ 0.40

Long 1 ZOE Aug 30.00 Call @ 6.10*



Bullish Diagonal Spread

Short 1 ZOE May 37.50 Call @ 0.40

Long 1 ZOE Aug 30.00 Call @ 6.10

ZOE Below 37.50 at May Expiration –

May 37.50 Call Expires

Aug 30.00 Call is Open

ZOE Over 37.50 near May Expiration –

May 37.50 Call In The Money

Aug 30.00 Call is Open

A decision needs to be made on the Aug Call

Trading Choices –

Sell ZOE Aug 30 Call

Hold ZOE Aug 30 Call

Sell Another Closer Dated ZOE Call

At May Expiration –

- ZOE is trading at 35.00
- Long 1 ZOE Aug 30.00 Call @ 3.70
- We believe ZOE is ready for a bullish move
- Decide to hold Aug Call

No Trade

Net Running Cost = 5.10

Bullish Diagonal Spread

Running Profit Option Sales = 1.00

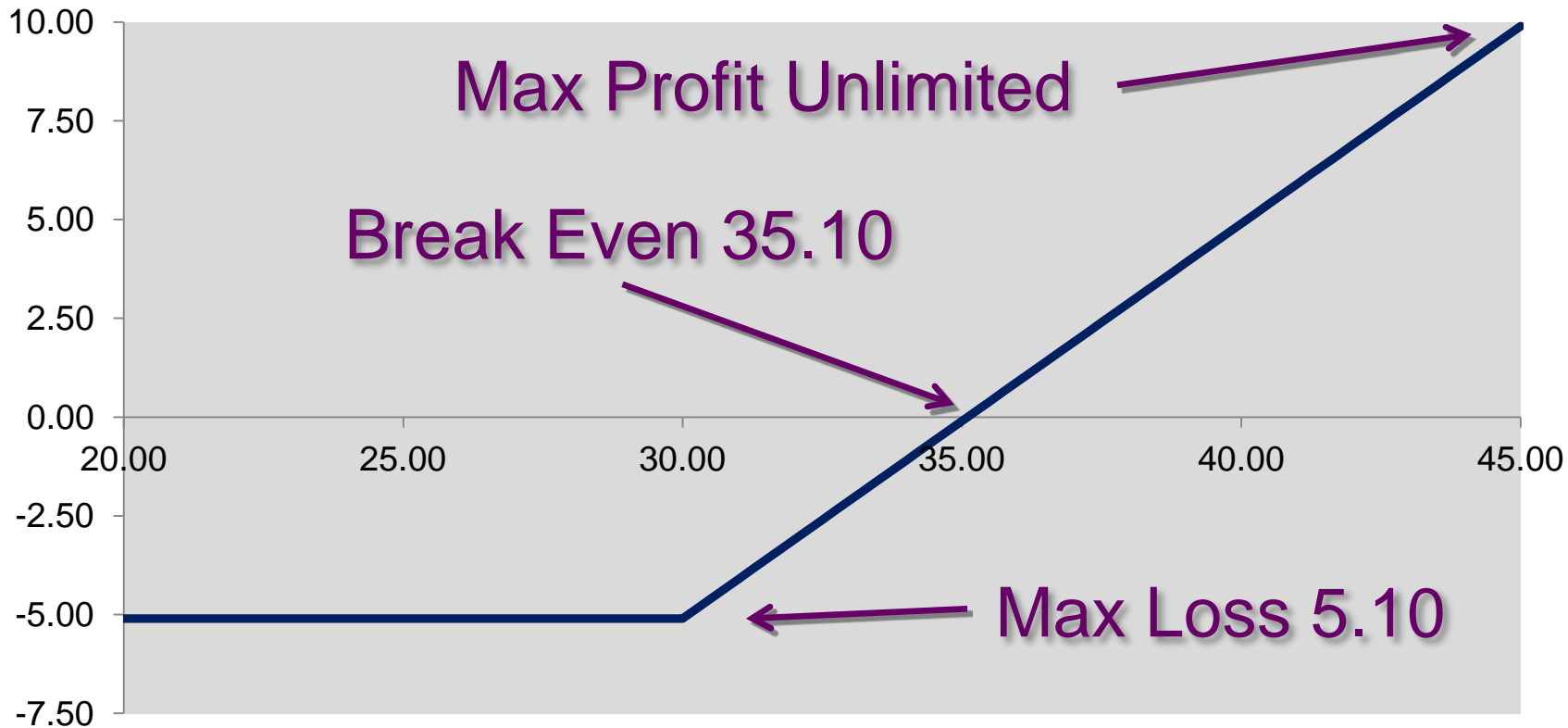
Long 1 ZOE Aug 30.00 Call @ 6.10*

| ZOE at April Expiration | Long 1 ZOE Aug 30.00 Call | Net Profit From Option Sales | Original Option Cost | Profit / Loss |
|-------------------------------|---------------------------------|------------------------------------|----------------------------|---------------|
| 30.00 | 0.00 | 1.00 | (6.10) | (5.10) |
| 32.50 | 2.50 | 1.00 | (6.10) | (2.60) |
| 35.00 | 5.00 | 1.00 | (6.10) | (0.10) |
| 37.50 | 7.50 | 1.00 | (6.10) | 2.40 |
| 40.00 | 10.00 | 1.00 | (6.10) | 4.90 |
| 42.50 | 12.50 | 1.00 | (6.10) | 7.40 |

Bullish Diagonal Spread

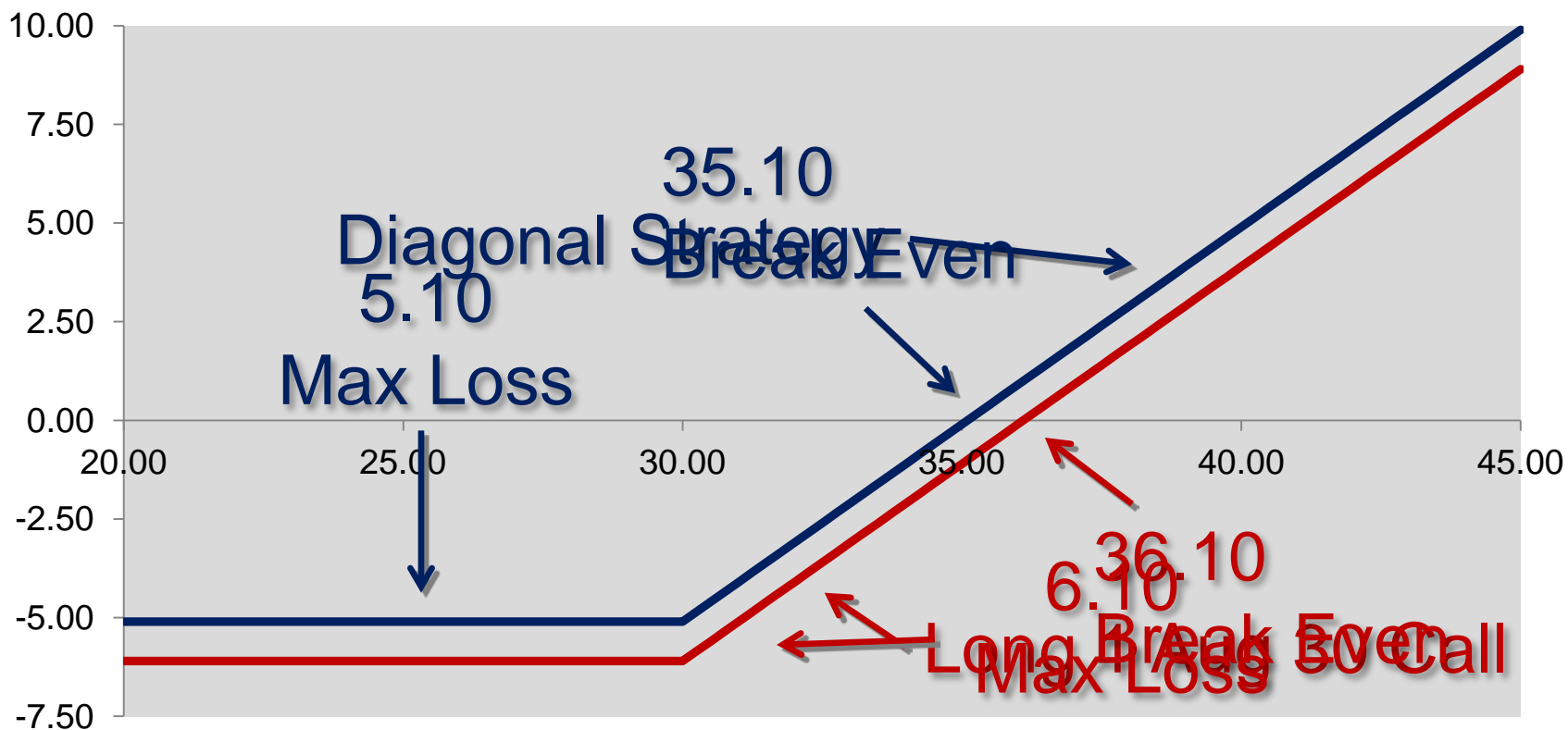
Running Profit Option Sales = 1.00

Long 1 ZOE Aug 30.00 Call @ 6.10*



Bullish Diagonal Spread

Diagonal Strategy vs. Long ZOE Aug 30 Call



- Each spread trade should begin with a price and time outlook
- Bull spreads are strategies that allow a trader to benefit from a precise bullish forecast
- Diagonal spreads can help a trader capitalize from time decay of the short option in the trade
- Diagonal spreads may also be created by opportunistically selling shorter dated options strategically against a long option position that has more time to expiration

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